

AFFORDABLE HOUSING REGULATORY BARRIERS IMPACT REPORT



NOVEMBER 1, 2000

**Division of Housing
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Affordable Housing Barriers

As in previous years the Division of Housing is pleased to report to the Colorado General Assembly Joint Budget Committee on the regulatory barriers to affordable housing. As requested this report includes the type and prevalence of local regulatory barriers, the steps taken by the Division of Housing to reduce these barriers and the effectiveness of these actions.

This report identifies regulatory barriers using a definition from the Division's 1998 publication "Reducing Housing Cost Through Regulatory Reform".

Regulatory barriers are defined as:

"... either a deliberate or de facto action that prohibits or discourages the construction of affordable housing without sound reasons directly related to public health and safety; a federal, state, or local statute, ordinance, policy, custom, practice, or procedure that excessively increases the cost of new or rehabilitated housing, either by improperly restricting the location of housing, or by imposing unjustified restrictions on housing development with little or no demonstrated compensating benefit."

In the past the discussion of regulatory barriers and their impact on housing cost was limited to homebuilders, local planning officials, and affordable housing advocates. However, this year the issue of the land use regulations and housing cost has been elevated to a statewide debate. It is one of the prominent debate issues surrounding the merits of the "Growth Management" discussion. The questions posed by both sides of the debate focus on whether land use restrictions further limit the supply of housing and increase its cost, or will communities respond and support greater control of the land development process by voting to establish development areas that are inclusive of a full range of housing choice and values? Regardless of the outcome of this debate, a community's values can be seen in its current land use policies and practices.

Tighter land use controls could increase the cost of housing, which may also result in increased overhead costs for business. The major factor in Colorado's economic recovery of the early 1990's was the marginal benefit households enjoyed when comparing housing cost to wages. A greater household buying power relative to shelter results in a wage structure that is more competitive than other states. When businesses enjoy lower overhead costs, the greater the opportunity for business investment and expansion. Reverse this wage and cost of housing advantage and the business investment and expansion opportunities flow to different regions of the country and the world. U.S. Housing Markets second quarter 2000 survey of the Denver MSA, indicates that the number of new jobs created in the Metro area is declining in relation to the supply of new housing being built. This decrease in demand may indicate that as businesses see increased overhead costs in order to retain employees, local expansion plans are reduced.

The statewide land use debate has brought to the mainstream the critical issue of

affordable housing. Housing densities, transportation linkages, infill development are terms used in the growth management debate. With an understanding of these terms, the general populace can better understand how regulatory and economic barriers limit the supply of affordable housing. Citizens should review their community's current affordable housing policies enacted by their local elected officials to gain a better understanding of how those local policies either favorably or negatively impact the supply of housing in different price ranges.

To gain a better understanding of the link between policy and production, this report will examine the type and number of housing units produced by Colorado communities over the past five years. This analysis of housing production will give a measure of the scope of local efforts to stimulate a full range of housing opportunities. This report:

- Looks at a five year comparison of the growth patterns of three of the state's major population centers. This comparison will examine the household growth compared to the development of either single family homes or multifamily dwellings.
- Examines a sampling of municipal, county, and special district development fees.
- Compares how these fees have changed over the last three years and the reasons for the increases or decreases in development fees.
- Surveys all municipalities to determine their level of land use planning, whether they have enacted or will enact a comprehensive plan, whether they employ affordable housing policies.
- Summarizes the Division of Housing effort to identify and mitigate the economic impacts of local land use regulations on affordable housing developments funded by the division.

Multifamily Production

The most economical housing choice for persons with lower incomes is multifamily rental housing. Based on information contained in the 2000 Division of Housing report, Housing Colorado: The Challenge for a Growing State, the supply of affordable housing, specifically multifamily rental housing, has significantly declined. In 1990, the percent of multifamily housing in Colorado comprised 89% of the rental housing supply. This year, the portion of the state's housing stock that is multifamily declined to less than 82%.

This decrease in the supply of multifamily housing was caused by economic and regulatory conditions over the past decade. Positive economic conditions resulted in lower mortgage rates and higher employment. The lower mortgage rates created an opportunity for new and move-up homebuyers. Developers sensing the market change, increased the supply of single family homes, primarily in suburban Front Range communities. This demand for homeownership also resulted in a decline in the percent of multifamily buildings that remained rental. The conversion of multifamily properties to condominiums further reduced the multifamily rental supply. During this past decade the percentage of multifamily properties that were rental declined from 89.2% to 82%.

Multifamily is the primary source for affordable housing because it is cheaper to build. The cost savings can be found in lower land cost per unit, lower construction cost, and reduced government fees for utilities. Historically low vacancy rates signal strong demand in the rental market. Developers should be able to respond accordingly. What is inhibiting the production of multifamily housing? Builders are not able to recoup their investment for construction by charging modest rents. Factors that contribute to escalating development costs are higher land cost and the widening array of local development fees.

Setting Aside Land For Multifamily Housing

The first barrier that limits profit is the lack of developable multifamily land. The developer when seeking construction opportunities pursues a path of least resistance. The developer will seek land that is currently zoned for multifamily use and preferably has access to public services. Recent development cost reports reflect rapid increases in the sales prices of land zoned for multi-family development. Division of Housing analysis finds that the land costs for multifamily developments approved by the division have increased 30% in the past year. Local zoning processes and regulations have a direct impact on the supply of land approved for multifamily housing. Without an adequate quantity of land that can be served with utilities, the market price of a commodity in short supply increases rapidly.

Many communities have adopted policies which do not encourage multifamily housing. As a result of local NIMBY(not in my backyard) pressures, many parcels formerly zoned for multifamily have been down zoned for lower density housing. Some communities have implemented conditional use policies which require hearings and planning reviews of all multifamily applications. The more difficult and costly zoning processes become, the more valuable land with the necessary approvals becomes. Insuring a sufficient supply of multifamily zoned land is the product of a local government's comprehensive

plan and the subsequent planning and zoning decisions made in support of that plan. If these policy trends are compared with the type of permits issued, it becomes evident that some communities are opting to limit the development density of land and thus the opportunity for less costly dwelling units.

Five Year Growth Patterns

The five year growth patterns for three population centers in Colorado's metro and rural housing markets are examined in this section. Single and multifamily housing permits reported annually to the Colorado State Demographer from 1995 through 1999 were used to establish patterns of residential development in these housing markets. The issuance of building permits is compared to the change in the number of households for each local government. In most situations the number of permits will exceed the household increases. This difference is due to the time lag between permit issuance by the local government and construction and occupancy of the residential units.

The single family permits represent individual single family homes. We can assume that these residential buildings are for sale. The multifamily buildings represent permits approved for buildings with five or more units in a building. This eliminates buildings that are classified as duplexes, triplexes, or four-plexes. These types of buildings could be either for sale or for rent. The multifamily type of building could be more likely rental or a moderately priced condominium. It is housing stock that we assume could be affordable. The patterns of development could also indicate a local government's willingness to zone land that could be used for multifamily; thereby, increasing land use density in residential areas.

In applying a standard of comparison to discuss multifamily production, there are no firm standards to apply. What is known is that the inventory of rental housing is declining while increased population is resulting in very low vacancy rates in most market areas. Current estimates are that 31% of the state's housing stock is occupied by renters. Of that stock, over 80 percent is multifamily attached. As a gauge, an assumption based on current tenure patterns would indicate that 25% of the residential demand should be housed in multifamily rentals. For example, if 25,000 new households were projected for residency in a given community, one quarter of those, or 6,250 households would be expected to rent in a multifamily building. Various factors including market conditions, employment, access to transportation and other public services could influence this comparison in a specific locale.

Metro Denver Area

When examining the development patterns of the entire Denver Metro Area, some communities are issuing a balanced proportion of single and multifamily building permits, but other communities seem to be restricting the production of multifamily housing. Adams County, Federal Heights and Northglenn have issued a percent of multifamily housing permits which exceed the state's current renter tenure of 31%, while the surrounding communities of Thornton and Commerce City are producing a proportionally greater number of single family homes.

In Arapahoe County, all but one of the six listed jurisdictions in the Table on page 7, have issued in excess of a third of their permits for multifamily.

Except for Superior, the jurisdictions in Boulder County have issued less than the state's proportion of multifamily permits. In unincorporated Boulder County and the City of Boulder, population increases remain flat, but building permits continued to be issued at a moderate pace. This pattern of development raises questions about the production of affordable housing. Several factors could be in play that increase the cost of housing production; time delays in the local planning process, or elimination of residential units through commercial redevelopment. And, the decline in population coupled with the issuance of predominantly single family permits could result in a further reduction of residential land density. In communities, like Boulder, where land is very expensive, reducing land densities will add substantial cost to housing development. Thereby, creating an economic barrier to producing affordable housing.

In response to the growing need for affordable housing, both the City and County of Boulder are pursuing tax increases or renewals of existing tax to offer financial subsidies for affordable housing. The Boulder County "worthy cause" tax is projected to raise \$6 million over three years. The City of Boulder tax is projected to raise up to \$3.1 million annually over 10 years. Combined with the city's existing housing funds the new tax revenues are projected to produce 1,270 affordable housing units over the next ten years.

Boulder has also instituted an "inclusionary zoning" ordinance. The new ordinance requires all housing developers to set aside 20% of their developed units as affordable. To qualify as affordable housing the housing value ranges from \$98,000 for a 600 sq. ft. housing unit to \$167,000 for 1,200 sq. ft. The City of Boulder is also considering two other land use incentives that can be used to further expand the affordable housing inventory. Under consideration by the city is a requirement of 40% affordability of all new units developed on land annexed into the city and a greater unit density for residential development in commercial and industrial areas, and along transportation corridors. If the local tax initiatives do not pass, these land use incentives would certainly be required to increase the supply Boulder's affordable housing.

In Denver, the production of multifamily housing has been very positive. However, many of the multifamily units in Denver over the last five years were built in lower downtown and carry a high price tag. So, the local elected officials, city staff, and housing advocates sense a need to increase their efforts to produce more affordable housing. The city has recently enacted an ordinance, whereby, owners of rental properties with expiring Section 8 rental contracts will have to notify the city of their intent to continue their Section 8 contract or opt out of the HUD subsidy program. This early notice will give the city an opportunity to seek prospective buyers of the property to maintain its affordability. Denver has also drafted a law, now being reviewed by City Council, that would require developers of 50 or more housing units to set aside 10 percent of the units to be affordable to households with annual incomes between \$35,000 and \$50,000. There are many questions to be resolved before this law is enacted, but it is

estimated that 400 new homes could be produced at a sale price of \$138,000. This is far below the current average sale price of \$200,000 in Denver. The city is also considering land use and financial incentives to produce more affordable rental units in the redeveloped areas of Stapleton and the Platte Valley. Denver is asking its residents to approve the use of tax surplus to finance affordable housing development.

The county with the largest growth spurt over the last decade is Douglas County. For a number of years Douglas County was the fastest growing county in the country. The total number of permits for single family homes was 23,115 over the last five years. This was far in excess of any other Colorado county. But, Douglas County faces the same problems associated with the lack of affordable housing, because the production of multifamily housing was limited to only 3,295 multifamily units. The county is considering forming a countywide housing authority to develop and manage affordable housing. The county has also begun a review of its planning process and land use incentives to encourage more multifamily development.

In its State of the Cities 2000 report HUD identified two main categories of renters that are prime targets for multifamily development, high tech workers and retail/service workers. The high tech workers are generally young mobile professionals, willing to live in multifamily housing so long as they can access a full range of communication services and recreational opportunities. The other type of renter is employed in the retail/service sector. This is one of the fastest growing employment sectors in the country, but one with limited income potential. Workers in this category need to be close their jobs and have access to more affordable housing. The growth in both of these employment sectors is evident along Colorado's front range. Clustering development for these growing sectors of the rental market near their place of employment may begin a trend that could be replicated in each of the front range population centers. The principals of "smart growth" would encourage the development of land along transportation corridors and in close proximity to employment centers.

The Table on the following page compares housing production in the Denver Metro area over the last five years. Comparisons can be made showing the type of housing production between municipalities within their counties, between counties within the metro area, and which type of new housing each municipality opted for in response to the population growth over the last five years.

Denver Metro Area				
Local Governments	Household Increases	Single Family Permits	Multifamily Permits	Multifamily Percent of New Development
Adams County				
Adams Co unicorp	1,131	1,762	19	1.1
Brighton	867	788	132	14.3
Commerce City	1	103	0	0
Federal Heights	193	95	384	80.2
Northglenn	1,165	762	746	49.5
Thornton	6,076	5,401	1,176	17.9
Westminster	2,724	4,106	1,678	29.0
Arapahoe County				
Arapahoe Co unicorp	9,197	6,340	2,871	31.2
Aurora	5,561	4,245	2,040	32.5
Englewood	268	109	0	0
Glendale	186	30	392	92.9
Greenwood Village	2,007	405	1,420	77.8
Littleton	1,749	1,250	725	36.7
Boulder County				
Boulder Co unicorp	-184	1,063	0	0
Boulder	-4	900	324	26.5
Broomfield	1,912	2,490	1,216	32.8
Lafayette	2,108	1,636	565	25.7
Longmont	4,111	3,403	1,424	29.5
Louisville	391	475	170	26.4
Superior	2,740	1,264	1,409	52.7
Jefferson County				
Jefferson Co unicorp	5,853	6,322	2,523	28.5
Lakewood	2,826	1,968	2,448	55.4
Arvada	2,240	2,404	335	12.2
Golden	636	807	7	.09
Wheat Ridge	60	199	95	32.3
Denver County				
Denver	15,631	4,129	6,833	62.3
Douglas County				
Douglas Co unicorp	16,384	17,865	2,399	11.8
Castle Rock	1,803	1,815	314	14.7
Parker	3,832	3,435	582	14.5

Colorado's Recreational Counties

Another region of the state with a critical need for affordable housing is the central mountain region: Eagle, Summit, Pitkin, Garfield, San Miguel counties. Typically in these rural markets an aversion exists to greater density housing development, but along with the rising cost of land, labor, materials, and the mountainous topography comes an acceptance of higher residential density. Affordable rental housing is being produced in a limited number of communities.. The affordable housing stock seems to be centered in a number of bedroom communities along the transportation corridors in communities like, Avon and Eagle, and Frisco, but not many other places.

Recreational Counties				
Local Governments	Household Increases	Single Family Permits	Multifamily Permits	Multifamily Percent of New Development
Eagle County				
Eagle Co Unicorp	1,822	1,988	1,126	36.2
Eagle, Town	343	179	140	43.9
Gypsum	384	342	56	14.1
Avon	220	150	313	67.6
Vail	-39	175	85	32.7
Basalt	258	224	74	24.8
Summit County				
Summit Co Unicorp	764	1,573	1,368	46.5
Breckenridge	167	261	272	51.0
Frisco	343	256	420	62.1
Silverthorne	300	357	78	17.9
San Miguel County				
San Miguel Co Unicorp	-91	333	185	35.7
Telluride	42	73	87	54.4
Pitkin County				
Pitkin Co Unicorp	-40	239	36	13.1
Aspen	-10	164	91	35.7
Garfield County				
Garfield Co Unicorp	786	766	0	0
Carbondale	656	258	85	24.8
Glenwood Springs	375	213	19	8.2
New Castle	311	279	0	0
Rifle	577	246	32	11.5

Our premise of multifamily housing being affordable is still relevant in this region of the state, but it is safe to say that the majority of the multifamily units were probably condominiums that were used as second homes or rented as investment properties. If a community demonstrates their acceptance of multifamily housing, we believe that the opportunity presents itself for development of affordable housing. However, when a community has not responded to the need for affordable housing by encouraging the development of multifamily housing, it is highly unlikely that community will provide the necessary financial and regulatory incentives. Several communities in each marketplace are noticeably lacking an adequate supply of multifamily housing: Silverthorne, Gypsum, Basalt, Glenwood Springs. Other communities on the fringe of development such as Rifle and New Castle need to act now to avoid the difficult decisions faced by Carbondale and Telluride. These communities need to reexamine their comprehensive plans to identify parcels that can be zoned for multifamily development. They also need to adopt annexation policies that provide an incentive for developers to include affordable units as a portion of all units in each new development.

Northern Front Range Counties

Like the Denver Metro Area, population in the Northern Front Range has substantially increased over the past five years. But unlike the central mountains, the production of multifamily housing is primarily limited to the population centers of Fort Collins and Loveland, Greeley and Evans. The outlying smaller communities have limited their production to single family housing.

Many communities argue that they lack the infrastructure to support a higher density of development. These same communities; however, are able to justify infrastructure expansions that support substantial single family development. What seems to be lacking is a collective desire to promote the construction of multifamily housing. Opting instead to preserve a “way of life” for their small towns, and let the larger towns address the need for multifamily housing.

Many of these smaller front range communities have benefitted from major business development investments over the last decade. To maintain their edge in attracting future business investment, these communities need to initiate an effort to offer a full range of housing opportunities for existing and future residents.

Northern Front Range				
Local Governments	Household Increases	Single Family Permits	Multifamily Permits	Multifamily Percent of New Development
Larimer County				
Larimer Co. Unicorp	1,182	3,469	91	2.6%
Fort Collins	5,661	4,985	1,944	28.1
Loveland	2,523	2,792	356	11.3
Weld County				
Weld Co Unicorp	664	987	0	0
Greeley	2,863	2,320	451	16.3
Erie	1,181	1,253	0	0
Evans	629	287	110	27.7
Fort Lupton	248	263	0	0
Johnstown	605	600	6	1.0
Windsor	1,246	1,226	7	.06

Earlier we cited a recent HUD report entitled State of the Cities 2000. This report highlighted a growing willingness for workers to commute longer distances to work. Within the Metro Denver area, CU Professor Prosser has cited data indicating that each household now drives 70 miles daily. Vehicle trips have increased three times more rapidly than the population rate. While this trend does not enhance Colorado's quality of life or natural beauty, it does point to consumer willingness to pursue more affordable housing opportunities in communities further away from job centers. For the Northern Front Range this characteristic may hold promise for multifamily development in the communities on the outskirts of Fort Collins and Greeley. These patterns are expected to continue and lead developers to offering affordable housing further from the place of employment. This can be demonstrated in areas like the state's central mountain region, but not as much in the outlying communities in Larimer and Weld Counties. This is not the optimum choice for land development and efficient use of public resources, but higher land and infrastructure cost will limit housing opportunities in the major population centers. The alternative to living in Fort Collins, Loveland, or Greeley will rest on a worker's willingness to commute to cheaper housing in outlying communities like Windsor, Johnstown, Erie, and Fort Lupton.

By examining the five year housing production cycle in these three areas of the state we can see where the overall portion of multifamily housing is declining in relation to single family housing. It is important to the overall supply of affordable housing that communities are encouraged to offer a full range of housing types for future residents. In Colorado local

governments have the land use controls to successfully direct development priorities. It has been demonstrated several times this past decade that once a community identifies a development priority, like attracting major commercial retail centers to bolster sales tax revenues, identified goals can be realized. The same can be said for affordable housing. Affordable housing can and should be a local municipal goal, if for no other reasons than to offer the employees of major tax generating enterprises, a place to live.

The strategies for developing affordable housing are well known. Given the fixed cost of labor and materials, lowering the variable cost of land and local fees is instrumental in reducing the overall housing cost. Land cost can be reduced by higher density development. Communities can either adopt local ordinances or administrative policies to offer fee reductions to developers willing to build affordable multifamily housing.

These affordable housing policies begin with decisions made during the comprehensive planning process. Within this process local governments can identify their affordable housing production goals by locating areas within their communities that modest single family and multifamily housing can be built. The long term planning can ensure that the infrastructure needed for these areas is in place.

Local Government Development Fees

The second barrier to constructing affordable housing is escalating government fees. This report includes a sampling of local government fees charged for infrastructure improvements and fees for administrative review of building and planning documents. It is not surprising that the cost of public infrastructure and the associated fees are increasing. However, the overall increase in fees is driven by new community expectations for broader infrastructure investment. The definition of public infrastructure, often defined as the utilities and services that provide for community health and safety, is being rewritten to include investments for community convenience and comfort.

When comparing the types of fees charged by local governments over the past three years, fees for water and sewer hookups, open space acquisition and recreation facilities head the list of increases. In a two year period ending in 1998, according to Professor John Prosser of CU Denver, 170 local governments passed tax, bonding or growth limitation ordinances related to open space. Looking ahead, to the advent of new mass communication modes, paying for the physical installation of these systems will further add to public infrastructure cost beyond health and safety. The cost of these public amenities can be borne by the housing consumer, but citizens must also realize that these infrastructure fee increases raise the price of housing.

This report marks the third year that the division has surveyed the development fees of twenty municipalities and their corresponding county or special districts. Exhibit A lists the types and amounts for each of these jurisdictions.

A number of communities have approved minor increases in their fees over the last year. Only a limited number have substantially increased their development fees. It is important to note that the fee increases have been relegated to paying the cost of infrastructure, not the administrative cost of building inspections and plan reviews. As stated earlier in this

report, the marketplace is redefining its expectation of public infrastructure. The result is substantial increases in development fees to support this expanding infrastructure. New residential developments are expected to have access to public recreational facilities, such as softball fields, public swimming pools, exercise equipment, and tennis courts. Also, demand is increasing for open space, which includes parks, playgrounds, and lakes. Adding to local amenities is the consumer desire for competitive schools, new libraries, expanded museums, and advanced technology and communication services. This expectation for expanded infrastructure goes well beyond the health and safety threshold often held up as the test for taxpayer expenditure. The chart on page 13 compares development fees for the last three years and shows the reasons for the increases for both urban and rural communities.

At the top of that list for urban jurisdictions is the City of Arvada and the City and County of Denver. This year Arvada added a \$4,000 open space fee and \$1,400 for a school impact fee. Denver's fees for water and sewer have substantially increased over the last three years for housing requiring new water & sewer taps. Aside from the major redevelopments of Lowry, Stapleton and the Platte Valley, most of Denver's construction is on parcels of land with existing water and sewer access. This infill development would limit the cost of these fees since water and sewer taps are already available on these sites. In previous year's Pueblo has reported the lowest fee package among the urban communities. This year Pueblo is reporting a \$1,706 increase in their total development fee. Similar to Arvada, the primary reason for the increase is open space acquisition. Both communities are looking to set aside land for parks and recreation centers for new developments. Arvada is looking west of its current core population area and developing land closer to the foothills. The land use plans for this area include substantial open space abutting single family housing.

The City of Loveland also substantially increased its development fees. The purpose of their increase was for storm sewers, sanitary sewers, and parks and recreation. This area of the state has been funding improvements to flood prone areas. As residential and commercial development put pressure on existing drainage systems, future development requires new systems for prevention of damage due to flooding.

Except for a doubling of the development fee for the unincorporated areas of Eagle County, which is served by the Eagle River Water & Sanitation District, development fees in most rural communities increased only slightly. More common in the rural areas were fee increases not for open space, but for water and sewer access. The water tap fee in Fort Morgan increased by \$1,269 and \$750 in La Plata County. Credit for reducing administrative fees goes to Trinidad. They reduced their building permit fee by \$796. The Trinidad City Council received cost comparison data from southern Colorado contractors that showed Trinidad's administrative review cost were higher than Pueblo's. In response the City Council reviewed the city's cost and lowered fees.

The following chart compares the changes from 1998 to 2000. It is a summary of this year's findings. These fees are calculated for a single family home with a value of \$100,000.

The development fees for urban and rural counties are a combination of county fees and special district fees. In unincorporated areas of counties, water and sewer services are

provided by special districts. In some areas the water and sewer services are provided by one special district. In some other areas there are special districts that provide only water or sewer services. The actual fees are noted in our summary information Exhibit A.

Change in Development Fees 1998 - 2000

Community	1998	2000	Net Change	Fee Revision
URBAN COMMUNITIES				
Adams County ¹	9,138	12,938	3,800	water & sewer
Arapahoe Co. ²	17,458	15,153	-2,305	Lower sewer fee
Arvada	13,824	20,754	6,930	New Fees for Open Space & Schools
Aurora	12,776	13,076	300	New Fees for Park & Rec
Boulder	16,495	15,559	-936	Slight reductions in most fees
Boulder County ³	14,790	9,994	4,796	Decrease In water & sewer fees
Colo. Springs	9,164	9,706	542	Slight fee revision - all fees
Denver	7,205	17,120	9,915	Increases in Water & Sewer fees
Douglas Co ⁴	15,346	17,215	1,869	Increase in Water & Sewer fees
El Paso Co ⁵	12,337	12,337	0	
Grand Junct.	6,345	6,345	0	
Greeley	8,353	10,563	2,210	Increase in Water/Sewer fees
Jefferson Co ⁶	8,469	8,469	0	
Lakewood	10,735	10,735	0	
Larimer Co ⁷	6,145	6,145	0	
Longmont	15,912	16,601	689	Increase in Traffic & Park/Rec fee
Loveland	12,836	15,899	3,063	Largest Increases: Sanitary Sewer, Storm Drainage, and Park & Rec.
Mesa Co ⁸	4,728	9,928	5,200	Increase in Water Fee
Pueblo	5,515	7,221	1,706	Increase in Park/Open Space fee
Pueblo Co ⁹	4,075	5,575	1,500	
Weld Co ¹⁰	15,194	17,549	2,355	Increase in Water & Sewer Fees
Westminster	15,808	17,202	1,394	Increase in Water & Sewer
Urban Mean	11,052	12,482	1,430	6.5% annual increase

Community	1998	2000	Net Change	Fee Revision
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RURAL COMMUNITIES				
Alamosa	6,123	6,123	0	
Canon City	6,617	6,885	268	Fee Increase for Building Permits & New Fee for Plan Check
Durango	9,266	9,266	0	
La Plata Co ¹¹	7,552	8,302	750	Increase in Spec. District Sewer Fee
Eagle	10,043	10,043	0	
Eagle Co ¹²	13,391	17,129	3,738	Increase in Water/Sewer Fee
Fort Morgan	7,735	9,004	1,269	Increases in Water Tap Fee
Kiowa	6,893	6,911	18	Increase in Water Tap Fee
La Junta	2,925	3,820	895	Increase in Building Permit Fee
LasAnimasCo ¹³	7,144	8,894	1,750	Increase Water Fees
Montrose	6,950	6,950	0	
Montrose Co ¹⁴	7,187	7,187	0	
Morgan Co ¹⁵	7,065	7,065	0	
Trinidad	7,139	6,343	- 796	Reduction in Building Permits
Rural Mean	7,574	8,137	563	4% annual increase

1. Adams County - South Adams Water & Sewer
2. Arapahoe County - Cherry Creek Valley Water & Sewer
3. Boulder County - Hoover Hill Water & Sewer
4. Douglas County - Pinery Water & Wastewater
5. El Paso County - Academy Water & Sewer
6. Jefferson County - West Jefferson
7. Larimer County - Spring Canyon Water & Sewer
8. Mesa County - City of Grand Junction/Ute Water Conservancy District, Fruitvale Sewer
9. Pueblo County - Avondale Water & Sewer
10. Weld County - Dacono Water & Sewer
11. La Plata County, El Rancho Florida Metro District
12. Eagle County - Eagle River Valley Water & Sewer
13. Las Animas County - City of Trinidad
14. Montrose County - Tri County Water & West Montrose Sanitation
15. Morgan County - Morgan County Quality Water & Municipal Sewer

Comprehensive Local Government Planning

The first step toward removing the regulatory barriers that limit the production of affordable housing is found in a community's long term strategic planning process. A local comprehensive land use plan is a product of this long term vision. It is within this document that the development patterns for a community are identified. If local governments are to address the growing demand for affordable housing the first step is the availability of developable land - land that is properly zoned with access to utilities and transportation.

Each year the division surveys municipalities and counties to determine the number that have comprehensive plans and the various elements of those plans. The division's survey includes each community that has adopted a comprehensive plan and the various elements of each plan. Exhibit B summarizes the results of this year's survey and gives an indication of the types of elements contained in a comprehensive plan.

This year the division received 154 surveys from a total of 263 municipalities and 63 counties. Of the municipalities surveyed 118 have comprehensive plans and 36 do not have plans. Last year the number of communities reporting that they did have a comprehensive plan totaled 138. Sixteen more communities have comprehensive plans than last year. The most prevalent elements of these plans are Park and Recreation, 116 communities include this element in their Plan; Transportation, 104; Housing , 96; Public Facilities, 90; and, Water Supply, 89.

The housing element of this Comprehensive Plan can address residential locations, policies regarding subsidies for affordable housing, and general design guidance. It is the adoption of affordable housing policies as an outgrowth of the Comprehensive Plan that prepares a community to increase its affordable housing supply.

Based on the latest figures from our annual survey 65 communities have adopted affordable housing policies for their communities. This is an increase of 16 over last year's total. Many of these communities have already attracted new housing development over the last year. If not new affordable housing, others may have taken actions to maintain the affordable housing that currently exists in their housing markets. These land use policies range from waiver or rebate of development fees, inclusionary zoning, expedited review and permitting process. They can also include the availability of local financial investment. Included in Exhibit C is a listing of communities and counties which currently have policies encouraging affordable housing development. This list is not all inclusive since not every Colorado community responded to our survey. But it does provide a good indication of the number of communities that have identified affordable housing as a development priority.

Division of Housing Production for Fiscal Year 2000

The Division of Housing approved funding for thirty-three multifamily rental projects this past year. These projects located in both urban and rural housing markets included acquisition and rehabilitation, and the construction of new rental housing. The division also invested in regional single family housing rehabilitation and downpayment assistance for first-time homebuyers. Because multi-family rental properties are the types of developments which come under the greatest pressure within local regulatory structures, this analysis will review the results of Division of Housing efforts to form partnerships with local communities to solve the sometimes complex financial and regulatory problems these projects face.

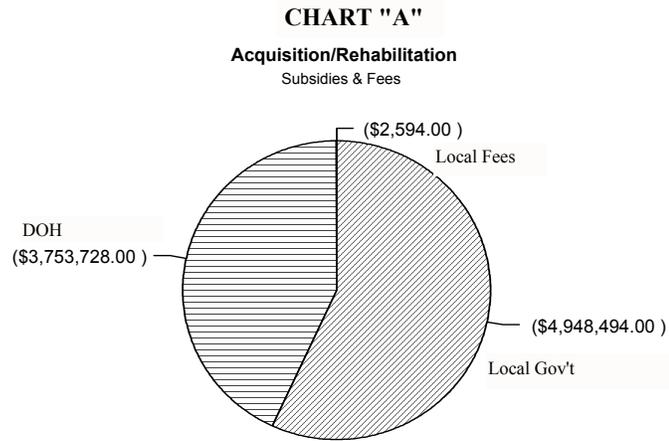
The Division of Housing application underwriting process for each project minimizes the public subsidy (loans, grants, letters of credit) required to make each project financially feasible. Several factors are examined to reduce the public subsidy level: development cost, return on investment, operating expenses, and regulatory cost. Division staff negotiate with developers and local government staff on ways to lower regulatory cost and increase the financial support of local governments in affordable housing. We are able to negotiate with housing developers the hard and soft construction cost, financing cost and return on investment. But the greatest cost flexibility is often found in the cost of land and local government fees. These costs can often make or break a project. We believe that by limiting the overall cost, lower rents can be charged to tenants; thereby, benefitting persons with the lowest incomes and greatest need. These efforts typically yield a \$1500 per unit annual rent savings to the individual households.

Exhibit D summarizes the thirty-three multifamily rental projects funded by the Division of Housing this past fiscal year. The following tables and charts compare the amount of local fees, local government investment, and the division's investment.

For projects that acquire and rehabilitate existing rental properties, the division invested \$3,753,728. This compares to the local government investment of \$4,948,594 and local fees that totaled only \$2,594. In most cases existing properties acquired are subject to fees for building permits for rehabilitation. Those fees are waived or rebated to the project.

This past year, of the seventeen properties that were acquired and rehabilitated, all but two were located in urban front range communities.

Chart "A" to the right compares the sources of public investment in acquiring and rehabilitating rental properties. The minimal amount of local fees were charged for building permits issued for the rehabilitation work.



Accompanying the investment data in Chart "A" is the following Table 1, which summarizes the last three years the total amount of project cost, state and local public subsidy, and the amount of local fees. Each year the amount of local government subsidy has increased. Over the last three years the amount of local subsidy tripled from \$1.2 to \$4.9 million.

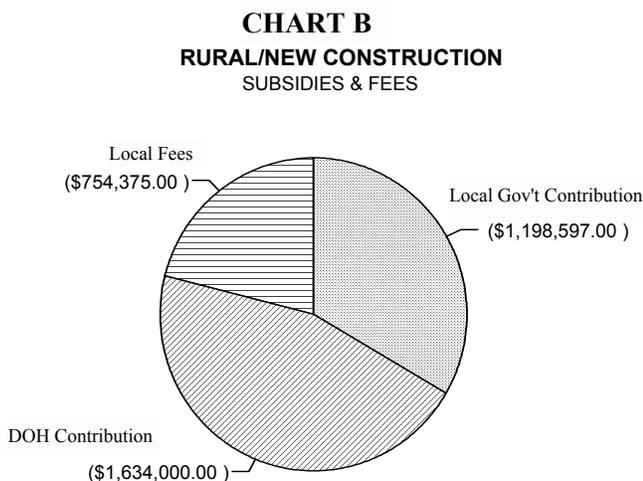
TABLE 1
Acquisition with Rehab (statewide)

	1998	1999	2000
Number of Projects	10	18	17
Total Project Cost	\$27,423,016	\$53,328,876	\$47,433,638
DOH Subsidy	894,000	2,860,430	3,753,728
Local Gov't Contribution	1,253,820	3,754,852	4,948,494
Cost of Local Fees	101,868	256,958	2,594

This past year the number of new rural projects declined from 13 to 5. Except for a growing demand in the central mountain areas of the state, the division has been able to finance the construction of 28 new rental projects in rural communities over the past three years. We have been cautious not to saturate the housing rental market with an over supply new apartments in the state's smaller towns. Our rural housing strategy does include an aggressive single family rehabilitation program and first-time homebuyer assistance.

It is our continuing priority to meet new rental housing needs in rural communities, but we are careful to monitor the "absorption" of what has recently been built.

Chart "B" does demonstrate an increasing commitment by the local governments of rural communities to invest their limited resources in affordable housing. The Chart shows that the investment by these local governments nearly equals the Division of Housing investment.



The following Table 2 shows how this investment has increased over the last three years. The local investment is used to off-set the cost of local fees and to reduce the overall project cost. It has become almost a given that to develop in high cost rural markets the land has to be donated by the local government or leased at a nominal rate.

TABLE 2
Rural Development/New Construction 1998-2000

	1998	1999	2000
Number of Projects	10	13	5
Total Project Cost	\$23,559,703	\$23,027,054	\$15,305,163
DOH Subsidy	3,492,700	3,511,590	1,634,000
Local Gov't Contribution	402,455	1,555,352	1,198,597
Cost of Local Fees	425,279	728,422	754,375

The Division of Housing approved funding for new construction projects in urban communities that totaled 549 new rental units. These rental units included housing for families, assisted living and independent living for seniors, and developmentally disabled persons. It is significant to note the variety of housing developed, because of the significant increase in the division's investment in urban communities and the substantial increase in the cost of the projects. This level of activity reflects population patterns and the fact that based on the division's needs analysis, there are greater numbers of households meeting income thresholds in the larger communities.

Affordable housing for persons with special needs is a growing demand throughout the state, but especially in our urban communities. This specialized housing will increase our overall project cost and public subsidy in future years.

Chart "C" shows that the local government contribution continued to be far greater than the subsidy invested by the state. The local government contribution was also far greater than the revenue generated by their fees, by a 2 to 1 ratio.

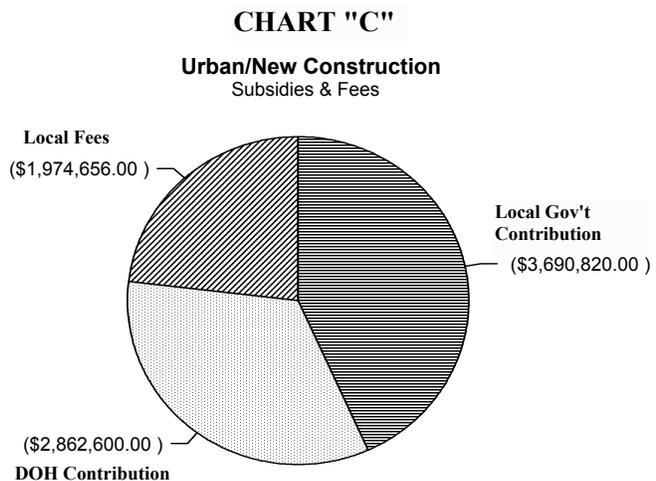


Table 3 shows that the properties constructed this year have a cost exceeding \$51 million. As a percentage of the cost or value of the new rental properties, the local fees were less than 4% of the total cost. In 1998 the local fees comprised 5.1% of the total cost and in 1999, they were 4.6%.

TABLE 3
Urban Development/New Construction 1998-2000

	1998	1999	2000
Number of Projects	11	4	11
Total Project Cost	\$24,166,357	\$15,628,668	\$51,834,379
DOH Subsidy	1,401,500	715,000	2,862,600
Local Gov't Contribution	2,181,820	1,411,000	3,960,820
Cost of Local Fees	1,238,073	715,125	1,974,656

Conclusions

Local governments play a major role in deciding whether affordable housing is built. Certainly, the greatest determinant is the demand for affordable housing, but in today's market we must examine the role local governments can have in increasing the supply of affordable housing.

We have examined two major barriers to developing affordable housing - land cost and development fees. Several examples are given in this report about communities efforts to reduce the cost of land and fees. The ultimate goal in reducing land cost is approving a higher density development. We have subscribed to increasing the availability of multifamily housing. Over the last five years the proportional share of our housing inventory which is multifamily housing is declining.

Approval of higher land density starts with the housing policies and practices contained in a community's comprehensive plan. After determining that a disproportional share of multifamily housing is being developed by a limited number of communities, we are suggesting the state require comprehensive plans for communities of 5,000 persons or greater. Within these comprehensive plans a minimum percent of land area should be identified for multifamily development. This would begin a process of each community planning for its share of modest housing.

The patterns of multifamily development in the Denver area are not consistent with "Smart Growth" land use for a metropolitan area. It has become a disjointed effort. Within the Denver Metro Area we are also suggesting that tax credits be awarded to developers willing to develop affordable housing within designated mass transit zones. This effort should be tied to the current federal and state housing tax credit programs. It should be a priority for communities within major population centers to link transportation services with affordable housing developments.

We have seen throughout this report that if communities decide to maintain restrictive land use regulations, then sufficient local tax revenues need to be raised to provide for financial incentives to private developers. Both in Denver and Boulder voters are deciding either to use existing tax surplus or increase local sales tax to fund affordable housing development. While land use reform can facilitate inclusion of affordable housing in development tracts, developers will need incentives to be able to produce financially feasible housing to comply with those regulations. In many cases, developers will not have the market flexibility to simply spread the costs of affordable housing among market rate units.

As the local governments increase funding for affordable housing, the state should also expand the resource base. Reform of local regulations and fees will not totally solve today's affordable housing shortage. Private sector producers will need community resources to produce the housing needed.

Colorado Communities With Affordable Housing Policies

Alamosa	Estes Park	Longmont	Silver Plume
Arvada	Fairplay	Loveland	Silverthorne
Aspen	Fort Collins	Lyons	Snowmass Village
Avon	Fountain	Mancos	Steamboat Springs
Bent County	Fraser	Manitou Springs	Summit County
Boulder	Frisco	Milliken	Teller County
Broomfield	Glendale	Minturn	Telluride
Brush	Glenwood Springs	Mt. Crested Butte	Thornton
Burlington	Garfield County	Pitkin County	Vail
Castle Rock	Greeley	Palisade	Wellington
Commerce City	La Junta	Palisade	Westminster
Cortez	Lafayette	Poncha Springs	Wheat Ridge
Crested Butte	Lakewood	Pueblo	Winter Park
Dacono	Lamar	Ridgway	Wray
Dolores	Las Animas	Rockvale	Yampa
Eagle	Littleton	San Miguel County	Yuma
El Paso County			